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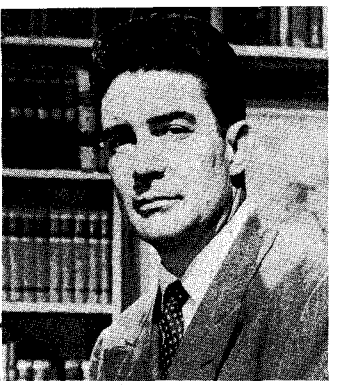

DAN SMOOT

SOCIAL SECURITY

In 1928, France adopted a national system of compulsory social security. In 1957, France added medicare. In 1964, the French social-security system was bankrupt. Medical expenses had more than doubled since 1957, and social security was 250 million dollars in debt. The French government has found no way to get the system out of debt—because the social-security tax is already so high (24% of the gross salary of every employed person) that it is a damaging burden on the national economy. Social security in France for the year 1964 cost 18 billion dollars. All other activities of the French government cost 18.5 billion dollars.[1]

In 1935—seven years behind France—the United States adopted a national system of compulsory social security.[2] In 1964—again seven years behind France—the United States came very close to adding medicare.[3] It is generally predicted that Congress will approve medicare in 1965. How far behind the French are we in descent toward irremediable insolvency of the social-security system?

Even without medicare, our social security system already is technically bankrupt: it pays out more than it takes in, and its shrinking reserve fund covers only a fraction of future obligations.[4]

We crossed the line into bankruptcy in 1957—when social-security benefits exceeded social-security taxes.[5] Since 1957, social-security taxes have increased more than 61% (from 4.5% of salaries to 7.25%); and the base on which the taxes are levied has increased more than 11% (from $4200 to $4800).[4] Nonetheless, in the eight-year period, 1957 through 1964, social security paid out four billion, 215 million dollars more than it collected (collected 86 billion, 508 million; paid out 90 billion, 723 million). The social-security trust-fund reserve to cover future obligations shrank by more than 17% (from 22 billion, 393 million in 1957; to 18 billion, 505 million in 1964).[5]

No one knows the size of future obligations under social security. The obligations depend on such unpredictable factors as future population growth, future employment levels, future changes

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that Congress may make in social-security laws. Calculations based on present law and present statistics reveal an impending situation far worse than the condition now existing in France.

At the end of 1964, 19,799,539 persons were drawing social-security benefits,[6] which totaled 15 billion, 95 million dollars a year.[5] The average life expectancy remaining for these present social-security beneficiaries is at least 10 years. Therefore, social security will need at least 150 billion, 950 million dollars to meet future obligations to the 19,799,539 persons already drawing benefits. There are only 18 billion, 505 million dollars in the social security trust fund.[5] Hence, social security owes *present* beneficiaries 132 billion, 445 million dollars *more* than is in the social security trust fund.

That staggering deficit is only a fraction of the whole. At the end of 1964, 62,100,000 persons were paying social-security taxes, expecting to draw benefits in the future.[7] On an average, social security pays out at least $11,000 *more* on each account than it takes in.[8] Therefore, social security's future obligations to persons presently paying social-security taxes will be, at the very least, 683 billion, 100 million dollars *more* than social security is supposed to collect from them and their employers.

Thus leaving the social-security system as it is, without adding medicare or otherwise increasing coverage and benefits, present and contingent liabilities of the social-security system total 815 billion, 545 million dollars *more* than the total of what the system now has and of what it is supposed to collect from and for all persons now paying social-security taxes. In short, the social-security system has already made long-range commitments twice the value of all property (public and private) in the United States.

In 1957, when the public first became dimly aware that social security was bankrupt, there was a rash of propaganda in support of the social-security system. A "social security" column became a regular feature in metropolitan newspapers throughout the land. In April, 1957, millions saw Eddie Cantor on television proudly accept his first social-security check.

In June, 1957, a $200 social-security check was ceremoniously presented to a widow in Manhattan. She was the ten-millionth person to become a beneficiary. The highlight of this internationally-publicized affair was the presentation of a personal letter from President Dwight D. Eisenhower to the widow saying:

"As the ten-millionth person receiving social security payments, you represent a significant advance in the history of our nation, whose prime concern is the welfare of its people.

"But this money is not charity.

"In his daily work, out of his regular wages, your husband earned the monthly checks which will be coming to you now while your children are growing to maturity.

"You can accept them proudly."[9]

There, in President Eisenhower's letter, is the theme of most social-security propaganda which has drenched the nation since 1957: *Social security is not mortgaging the future of America; money which beneficiaries draw from the social-security fund is money which they put into it; social security is a sound, self-supporting operation which the nation should be proud of.*

Sometimes, social-security enthusiasts say more, apparently, than they intend. On February 1, 1965, the *Progress-Bulletin,* Pomona, California, published a column entitled "SS Gives Retirees Full Money's Worth," written by Martin E. Segal, President of Retirement Advisors, Inc. Mr. Segal said he got his statistical information from Robert Myers, chief actuary of the Social Security Administration. From Mr. Segal's column:

"How would you like to get $13,422 return on an investment of $2580?

"That's what an average man, who retired in 1960 after having paid maximum Social Security taxes since 1937, will get under the present law.

"This average 1960 retiree paid $1290 in Social Security contributions. His employers' contributions on his account were the same amount. Accumulated interest (at 3 percent) on the employee's share added $374. Total $2954.

"But this average man and his wife would re-

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ceive about $13,422 in total benefits — about $11,000 more than was paid in for him."[10]

Having justified the title of his column by showing that social security gives each present retiree $11,000 *more* than his money's worth, Mr. Segal explains that this bounty is granted at the expense of future workers who will get *less* than their money's worth:

"But this average man and his wife would receive . . . about $11,000 more than was paid in for him.

"How is this possible? Well, this average man's son and grandson are working now. They are paying Social Security taxes, and their employers are paying equal amounts. Some of these contributions go to make up the deficit in the 1960 retiree's account . . . .

"So, by the third generation of Social Security retirees (those young men starting their work careers about now), total contributions and interest will be more than total benefits. That excess is being drawn off now to meet the cost of benefits for current retirees whose total taxes do not cover their total benefits."[10]

Yet, Mr. Segal scoffs at the "oft-repeated statement that Social Security" is "mortgaging America's future." He quotes Robert Myers, chief actuary of the Social Security Administration, as saying "the principle followed by Social Security is exactly the same as that followed by most private pension plans."

Any private-pension plan operating like the social-security system would be insolvent within months after the first pensioners began drawing benefits; and administrators of the plan would be (or should be) prosecuted for fraud and sent to prison.

As noted at the outset of this *Report,* France (spending 18 billion dollars a year on social security, 18.5 billion on all other activities) has already reached the point where government must soon break its welfare promises to the people, or go down in ruin. The United States is rapidly approaching that condition. The fact is not yet conspicuous here, because, for one thing, our welfare-state operations involve different programs, social security being only one of many.

Officials estimate that social security will pay out 17 billion, 115 million dollars to beneficiaries in 1965 (10 million dollars more than estimated income).[5] That expenditure for social-security benefits will be less than half of the federal government's total spending in the general field of welfare. Note this passage from the February 8, 1965, issue of *U. S. News & World Report*:

"Welfare State? In terms of actual cash paid out . . . the President's budget for the year to start July 1 will exceed by 6 billion dollars the total of the present year. It will be 127.4 billions . . . .

"Spending by the Federal Government for welfare, health, education and veterans' benefits — largely a form of welfare — will approach 42 billion dollars . . . . Five years ago, the same costs were less than 26 billion.

"These figures are a measure of the progress being made toward a welfare state in America. Totals would be increased substantially if spending by State and local governments were added.

"All of this, too, is before any benefit payments under a projected plan of hospital care for retired persons.

"In countries abroad, health insurance of one kind or another, once started, has tended to become the most costly of all forms of welfare."[11]

We are plunging toward the self-destruction predicted more than 125 years ago by Alexis de Tocqueville (French scholar and historian), who made a tour to study the great American experiment in freedom. Fascinated with what he saw, de Toqueville predicted that the vigorous American Republic, whose people had remarkable ideas about freedom and independence, would never encounter real danger from foreign enemies—but that it would ultimately destroy itself. His prediction was grounded in a knowledge of history.[12]

When emperors of ancient Rome discovered that they could win popular support by using public funds to buy food, entertainment, and pensions for the people, candidates for the office of emperor vied with each other to see who could promise most.[13]

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More than one Roman emperor was "elected" by the Roman legions, backed by idle mobs in Rome, strictly on the basis of having promised large cash handouts from the public treasury.[13]

People who demanded handouts from public funds were, for the most part, those who did not work and who, consequently, never paid much, or any, tax into the public funds.[13]

Every demand which the mob, the armies, and the veterans made upon the public treasury placed heavier burdens upon industrious, productive members of society. This discouraged thrift and industry. Workers were taxed so heavily to support non-workers that many workers quit, because they could fare better on the public dole than on a job. The number of tax-consumers grew, while the number of taxpayers shrank.[13]

The international program of Roman rulers accelerated the drift toward ruin.[13]

Roman emperors, abandoning the notion that government in Rome had an exclusive responsibility to the people of Rome, became world leaders. They saddled upon Roman citizens the task of supporting their leadership of the civilized world[13] (today we call it the "free world").

The emperors squandered the resources of Rome, giving military equipment, gold, and other goods (today we call it economic and military aid) to rulers of countries on the outer fringes of the empire. The purpose was to keep foreign rulers friendly so that Rome would have staunch allies against her enemies.[13]

In the end, foreign and domestic demands for handouts so far exceeded what productive Roman citizens could pay in taxes that Rome was bankrupt.[13]

When the barbarians moved in to sack and pillage, Romans had neither will nor strength to resist.[13]

What about the allies who had been subsidized for the specific purpose of helping defend Rome? They joined Rome's enemies, and fought for a share of the loot—fought with weapons which Rome had given them.[13]

That ended the international welfare state of ancient Rome.[13]

The end for Rome had been a long time in coming. How far from the end is America? No one can tell, but everyone who has studied the facts knows we are on the way.

What's In A Promise?

When a welfare-state measure like social security is adopted in a wealthy nation such as America, its first noticeable effects are attractive; but the rolls of those who receive continue to grow. Unable to produce the wealth it has promised to distribute, government confiscates and borrows from the people, to pay back what has already been confiscated and borrowed from them.

The evil feeds on itself. Thirty years ago, if government had given an elderly couple $100 a month, they could have managed to get by; but when government, in order to pay the $100, borrows, or waters its own currency (or increases taxes, which are always paid in consumer costs), the purchasing power of the $100 diminishes. Today, a couple are impoverished (according to official definitions) if they do not receive at least $250 a month. If government borrows or taxes enough to provide $250 a month, the $250 will not be adequate.

When you turn to government for your social-security benefits, government officials, if perfectly candid, will have to say:

"Mr. Citizen, years ago when you started to work, we began confiscating money from your paycheck, promising to pay you benefits later on. Unfortunately, we have spent that money, and have not one penny left. If we are to keep our promise, you and all other taxpayers in the nation must now give us more money."

That is how social security operates.

The money taken from you and your employer for social security goes into a trust fund, but the government borrows the money immediately and

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spends it as fast as it comes in. Hence, the social-security trust fund is a bookkeeping record of what government has collected for social security, but has already spent, largely for other purposes.[14]

Thus, social-security benefits are paid, not out of a reserve fund, but out of the general fund, which is provided by current taxation and borrowing. Eventually, inevitably, demands for social-security payments will be greater than the government can meet. At that point, the system will collapse.

Here, we come to a grim truth about social security: the law (which compels most of the people to contribute money, and to build their future plans around the compulsory government program) contains no guarantee that government will pay the benefits it promises. Congress *could* repeal the social-security law, without even requiring the federal government to pay back money already taken away from workers for social security.

It may seem unlikely that Congress would ever default on its social-security promises to the people; but Congress has already defaulted several times.

In most election years since social security went into effect, Congress has expanded the coverage—by raising amounts promised to beneficiaries, by lowering the qualifying age-limit, or by bringing new groups into the system.[2,15] Political propaganda about taking better care of more people obscures other considerations involved in election-year expansions of social security.

For one thing, extending social-security coverage to new groups helps to hide, temporarily, the system's insolvency: the new taxpayers must contribute awhile before any are eligible for benefits. Moreover, each expansion requires, eventually, an increase in social-security taxes. Each time Congress increases social-security taxes, it defaults on its promise to all persons already paying the taxes: a promise that they will be required to pay a fixed amount, and no more.

The social-security law of 1935 fixed the payroll tax at 2% of salaries up to $3000.00—the employee to pay 1%, the employer to pay 1%. The system went into operation January 1, 1937. In 1939, Congress amended the law, setting the "ultimate rate" of tax at 3%. In 1947, Congress amended the law, providing that the "ultimate rate" could rise to 4% by 1952. In 1950, Congress amended the law, retaining the "ultimate rate" of 4%, but raising the salary limit, on which the tax could be levied, from $3000 to $3600. In 1954, Congress amended the law, raising the salary-limit tax base to $4200. By revisions of 1956, 1958, and 1961, Congress has raised the tax base to $4800.00, and increased the tax to the present 7.25%, authorizing increase to an "ultimate rate" of 9.25% in 1968.[2,4]

In 1964, the House of Representatives (by a vote of 388 to 8) passed a bill increasing social-security taxes to an "ultimate rate" of 9.6%. The Senate passed the same bill, but added medicare provisions and authorized increase in social-security taxes to an "ultimate rate" of 10.4%.[5] The House would not agree to the medicare provisions. Hence, no social-security expansion was made in the 1964 election year.[3]

Addition of medicare, and other expansions of social-security coverage, were among President Johnson's major political promises in 1964. On the opening day of the new Congress, January 4, 1965, the President said:

"Let a just nation throw open . . . the city of promise: to the elderly, by providing hospital care under Social Security and by raising benefit payments to those struggling to maintain the dignity of their later years . . . ."[16]

On that same day, U. S. Representative Cecil R. King (California Democrat), introduced HR 1 in the House; U. S. Senator Clinton P. Anderson (New Mexico Democrat) introduced S 1 in the Senate. King and Anderson were supported by numerous Representatives and Senators, representing both political parties and most of the States.[17] HR 1 and S 1 are practically identical with the social-security-amendments bill approved by the Senate in 1964: extending compulsory coverage to self-employed medical doctors and in-

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terns; making social-security coverage available to police and firemen; increasing general social-security benefits by 5%; and authorizing a new "ultimate rate" of 10.4% for social-security taxes.[18]

Employees and employers covered by the social-security act of 1935 were promised that their combined social-security tax would be 2%. In 1939, they were promised that the tax would never rise above 3%. In 1947, they were promised that the tax would never rise above 4%. In 1956, they were promised a tax-rate of 4.5%; in 1958, a tax-rate ceiling of 6%; in 1961, a tax-rate ceiling of 9.25%.

If HR 1 and S 1 pass in 1965 (as is generally predicted), Congress will once again break its promise to the people — by increasing social-security taxes.

The most flagrant default on government's social-security promises to the people occurred in 1939. Note the following paragraph from a pamphlet entitled *Social . . . But Is It Security?,* written by Dillard Stokes, published in 1961 by America's Future:[19]

"The Act of 1935 guaranteed every person brought under social security at least his money back. If he died without drawing its annuities, it would go to his estate. Under this law refunds were made to 178,583 persons and 318,665 estates. There were some 33,000,000 others to whom the same guarantee applied. The Congress took it away from them in 1939, and in the 15 years that followed, 6,400,000 died without getting either pensions or refunds."

The Political Untouchable

By astonishing margins, U. S. Senators and Representatives always approve election-year expansion and extension of social security. Yet, most members of Congress must be aware that the program will eventually bring disaster to our Republic.

In March, 1957, I was in Washington, visiting with a U. S. Representative from a southern state. I asked him about the social-security program.

"Oh," he said, "it's just a question of time . . . before the whole thing blows up in our face. The social-security system is already bankrupt."

"Literally bankrupt?" I asked.

"Yes, literally," he said. "The whole idea was bankrupt from the beginning. But up until . . . [recently], social security was at least taking in more money every year than it was paying out—because there were 10 or 15 times more people paying than receiving.

"But . . . [now] . . . social security [has] crossed the line into actual bankruptcy and [has] started running a deficit . . . ."

"This is serious," I said. "If the thing is in that shape now, it will be horrible 15 or 20 years from now when another 30 or 40 million people are added to the beneficiary rolls."

"You're right," he said. "It could wreck our entire economy."

"Well, why aren't some of you in Congress trying to do something about it?" I asked. "You never see a word in the papers about all this. About all you ever see are statements from the administration about how wonderful social security is; statements from the political-party leaders trying to give their own parties all the 'credit' for social security; statements from Congressmen and Senators perpetually wanting us to expand social security. Why don't some of you tell the people the truth about this thing?"

"Look, Dan," he said, "any politician who makes an all-out crusade against social security, will be on his last crusade. He would sacrifice everything and gain nothing. Take me. I'm from a conservative district. The people want me up here to fight civil rights and other police-state legislation. But if I made one strong speech against social security, I'd never be re-elected. All the old folks who are already getting it would be mad. The middle-aged people who expect to get it soon would be mad. And the young folks who don't want to support their aging parents would be mad. One honest speech about social security

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would make a good majority of the voters in my district mad at me."

"If the social security administration . . . [is running] an actual deficit . . . how does it cover up so that the people won't know?" I asked.

"Oh," he said, "they slip over to an executive session of the appropriations committee with a bunch of figures and some double-talk about how there were some errors in computation when the last amendments were passed. They're just temporarily running a deficit. The whole thing will be adjusted when the next social-security amendments are adopted.

"But in the meantime, they need a little supplemental appropriation out of general revenues. And, of course, the gentlemen of the Congress know that this is the sort of thing that must not be given any publicity, because the papers would distort it. Extremists would draw sensational conclusions. It would be deeply disturbing to the people—and might even upset our delicately-balanced economy. The whole thing is a fraud, and everybody has his own reasons for being afraid to expose it. We're just waiting and drifting."

"Yes," I said. "And what will you do when I quote you?"

"I will," he said very earnestly, "call you a liar."

Since I never have identified the Representative, in quoting what he said about social security, he has had no occasion to call me a liar. Many other prominent officials have called me a liar, however, because of what I have written about social security.

But name-calling cannot forever hide the facts. The federal government's welfare-state programs (of which social security is the largest) are dragging our Republic to utter ruin.

What To Do

Congress supports social security, because it is regarded as a political untouchable; but the people *could* do something. The first thing is to stop Congress from enacting HR 1 and S 1 this year—stop it from enacting any social-security amendments, with or without medicare.

Every person who reads this *Report* could help immensely by sending extra copies to others—helping to inform and arouse a maximum number of Americans. When *enough* people write their Representatives and Senators, demanding *defeat of the King-Anderson bills to expand social security and add medicare*, Congress will listen.

FOOTNOTES

(1) "French Social Security on Verge of Bankruptcy," by Don Shannon, *The Los Angeles Times*, September 9, 1964, Part 1, p. 5; "Worldgram," *U. S. News & World Report*, September 28, 1964, p. 95

(2) *Social Security in the United States*, Social Security Administration, Department of Health, Education, and Welfare, 1957, 60 pp.

(3) "What Congress Did Not Do," *Congressional Quarterly Weekly Report*, October 9, 1964, pp. 2382-3

(4) "Back of the Questions About Social Security," and "An Official Interview: How Safe Is Your Social Security Pension?", *U. S. News & World Report*, December 7, 1964, pp. 54-63

(5) *Actuarial Cost Estimates For The Old-Age, Survivors, and Disability Insurance System As Modified By H. R. 11865, As Passed By The House Of Representatives And As According To The Action Of The Senate*, Committee on Ways and Means of the House of Representatives, September 10, 1964, 32 pp.

(6) Data obtained by telephone from Dallas Regional Office of the Social Security Administration.

(7) In a telephone interview, the Dallas regional director of social security said there are no available statistics on the exact number of persons paying social security taxes. He said his best estimate is that 90% of all workers in the United States are covered. Total employment in the United States at the end of 1964 was approximately 69,000,000. Ninety percent of that figure is 62,100,000.

(8) "SS Gives Retirees Full Money's Worth," by Martin E. Segal, *Progress Bulletin*, Pomona, Calif., February 1, 1965, Sec. 2, p. 8

(9) *The New York Times*, June 7, 1957, p. 1

(10) The eleven-thousand-dollar-profit figure for each social-security taxpayer, mentioned in Mr. Segal's column, is the one I used to compute social security's future liability of 683 billion, 100 million dollars to the 62,100,000 million persons now paying social security taxes. I multiplied $11,000 (the amount social security loses on each account) by 62,100,000 (the number of accounts presently existing).

(11) "The Story of 127 Billion Dollars," *U. S. News & World Report*, February 8, 1965, pp. 29-31

(12) *The Recollections of Alexis de Tocqueville*, edited by J. P. Mayer, Columbia University Press, 1949, 332 pp.

(13) For details on Rome, see any of the various editions of *The History of the Decline and Fall of the Roman Empire*, by Edward Gibbon, originally published in 5 volumes from 1776 to 1788.

(14) "$22 Billion Trust Fund 'Shrinkage'," *Los Angeles Herald-Examiner*, November 30, 1964, p. 3A

(15) *Congressional Quarterly Almanac for* 1961, p. 258

(16) "Text of President Johnson's State of the Union Message," *Congressional Quarterly Weekly Report*, January 8, 1965, pp. 50-3

(17) *Congressional Quarterly Weekly Report*, January 15, 1965, p. 67

(18) *Brief Analysis of the Provisions of S. 1 and H.R. 1*, U. S. Senate Committee on Finance, January, 1965, 7 pp.

(19) This 16-page pamphlet, which is eminently worth reading, can be ordered directly from America's Future, Inc., 542 Main St., New Rochelle, New York (price 25¢).

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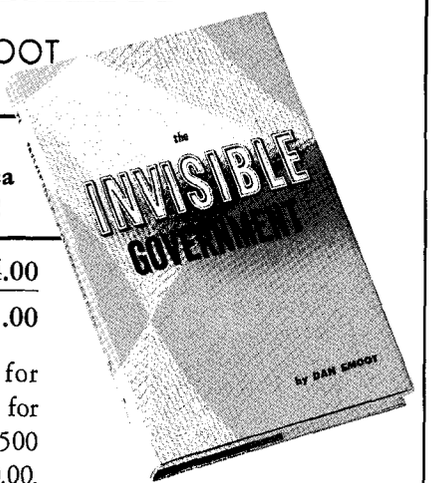

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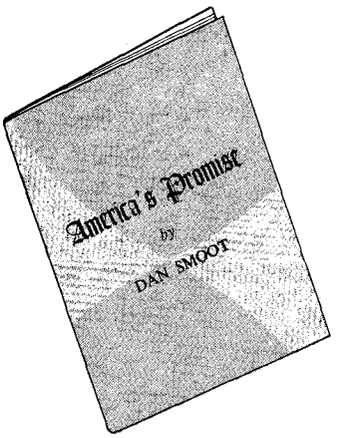

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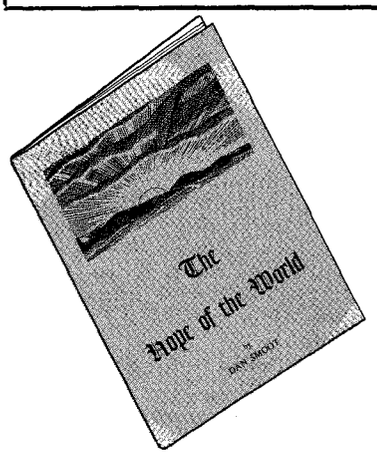

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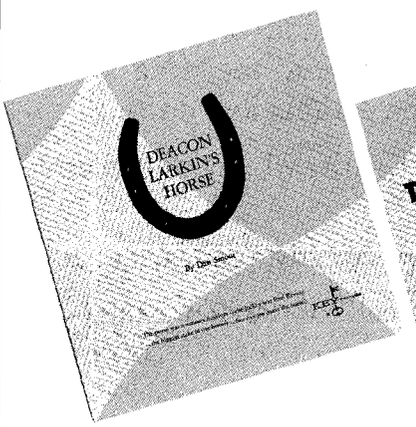

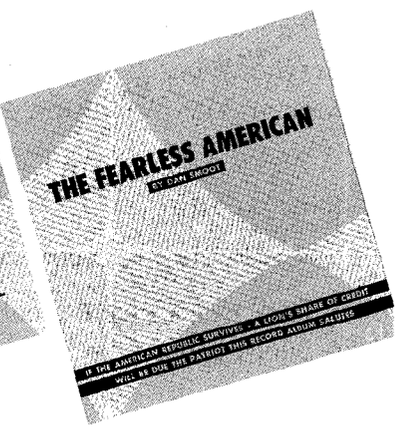
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